

REPORT TO THE EXECUTIVE MEETING OF 4<sup>th</sup> SEPTEMBER 2017

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<b>Meeting:</b>	<b>Executive</b>
<b>Date:</b>	<b>4th September 2017</b>
<b>Subject:</b>	<b>Harborough District Council Leisure Facilities</b>
<b>Report of:</b>	<b>Beverley Jolly, Corporate Director</b>
<b>Portfolio Holder:</b>	<b>Councillor Phillip King and Councillor Michael Rickman</b>
<b>Status:</b>	<b>Decision and Recommendation to Council</b>
<b>Relevant Ward(s):</b>	<b>All</b>

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1 Purpose of the Report

- 1.1 To update members on the public engagement regarding the future of the two Harborough District Council owned leisure facilities.
- 1.2 To update members on the outcome of the soft market testing.
- 1.3 To seek approval for the inclusion of Capital Budgets for the preferred leisure option within the approved capital programme for 2018/19 onwards.
- 1.4 The report is the first stage of implementing improved outcomes for the District in respect of the emerging integrated physical activity strategy. The report focuses on the current contact period ending in March 2019 and the need to invest in the Council's two core integrated Leisure Centres (which provide access to all residents and visitors across the District) in order to deliver these outcomes from 2019 onwards.
- 1.5 The report does not make recommendations about other Council facilities and other providers (private and community) contribution in delivering the outcomes of the Physical Activity Strategy - this will be subject to a future report.

2 Recommendations:

- 2.1 **To consider the results of the consultation and agree the proposals for essential facilities to include in the procurement process.**

- 2.2 To consider the results of the consultation and agree the proposals for core facilities (outlined in paragraph 4.12) and desirable facilities (outlined in paragraph 4.14) to include in the procurement process.
- 2.3 That the Executive recommends to Council to approve the inclusion in the 2018/19 Capital Programme a Capital Scheme (Investment in Core Leisure Assets) and financing detailed in paragraph 5.4.
- 2.4 Subject to the Council approving 2.3 and following the outcome of the soft market testing, that the Executive confirms that Design Build Operate and Manage (DBOM) is the preferred option for the procurement.
- 2.5 To delegate authority to the Corporate Director (BJ) to approve the final specification and procurement documents, in consultation with the relevant Portfolio Holders.

### 3 Summary of Reasons for the Recommendations

- 3.1 The consultation process finished on 15<sup>th</sup> August 2017. It has comprised of public consultation via an online survey, face to face drop in sessions for users of the existing facilities, consultation with the public in a session in the market hall, face to face meeting with parish councils and also with groups which use the facilities, including a meeting with representatives of the Bowls Club. A summary of the consultation responses is attached at **Appendix A**.
- 3.2 At the Executive meeting on 15<sup>th</sup> May 2017 it was resolved to undertake soft market testing to establish the markets interest in the procurement model the Council is intending to use for the contract for the two leisure centres. Following this soft market testing the Council's consultant for this project has advised that the Council can be confident it has received a good response from the market, with the majority of leading operators responding. This does not guarantee that all of these operators will bid when the contract comes to market but does give confidence in the approach which is being taken.
- 3.3 The presentation at the all member workshop on 1<sup>st</sup> February 2017 and the Executive report of 15<sup>th</sup> May 2017 provided details on why a new build at Market Harborough Leisure Centre and a refurbishment of the Lutterworth Sports Centre is the most cost effective option. This summarised in **Appendix B**.

The Executive is asked to recommend to Council that

- (a) £15.1m is allocated to the **core service** requirements and;
- (b) £1.5 million capital contingency (10% of the indicative modelled costs) to be provided for to manage bid risks and/or need and design requirements determined through the procurement process and;
- (c) £5 million of prudential borrowing approval is made available to bidders to propose **desirable additions** (including commercial proposals) to meet

the Council's needs, based on these generating a positive revenue return for the Council.

At this stage the capital approvals effectively provide the framework for the procurement and investment in the Council's two core leisure centres to proceed. The Capital costs will be quantified and refined through the procurement process prior to commencement on site.

#### 4.0 Key Facts

##### **Background**

- 4.1 The current contract with Harborough District Leisure Trust (HDLT) ends on the 31<sup>st</sup> March 2019. The Council pay an annual subsidy of c £135K to HDLT for the operation of the two leisure centres.
- 4.2 At the end of the current contract, 31<sup>st</sup> March 2019, the Council will have two leisure centres to offer to a new contractor to deliver leisure services on behalf of the Council. Although the Council has served dilapidation notices on the Trust, and these repairs have been carried out during the current contract, there will be further investment required in the future. Initial estimates indicate that there is £2 million of condition survey investment that would be required over the initial 10 year period, even if there was to be no refurbishment or changes in use within the Leisure Centres, as further explained below.
- 4.3 The Council has commissioned building surveys to assess the current condition, with a view to ascertaining the likely expenditure from lease expiry for a further 10 years. This has identified a significant requirement for Harborough Leisure Centre due to the age of the building. In summary; the majority of the condition survey investment is in the Harborough Leisure Centre which is viewed as being more time expired than Lutterworth Sports Centre and being less well suited to providing 21<sup>st</sup> Century Leisure Facilities.
- 4.4 The Leisure Market is now much more competitive than when the original Leisure Centres were built. Usage has declined as a result of competition and the 'attractiveness' of the leisure centre offer within the District and newer facilities being built in neighbouring councils. As such, there is a need for Harborough District Council to continue to invest in its assets not only to ensure they are fully maintained but also in order to meet customer expectations and maximise income from the facilities, whilst supporting the Council's vision of a 'Healthy Harborough'.
- 4.5 This report is for decision on the future of the Councils two main leisure facilities. These decisions are required at this point in time as the contract expires in March 2019 and this requires the procurement process for a new contract to start shortly.
- 4.6 The other district council owned facilities, such as playing fields and recreations grounds are currently being assessed and an action plan for each

of them will be developed, informed by the Council's Open Space Strategy and the results of the public consultation on the Activity Strategy.

- 4.7 The delivery of the Council's overall physical activity strategy will be delivered through the Council's two core Leisure Centres but also in partnership with the owners/providers of other sports facilities/clubs within the District. Using the recent Leicestershire and Rutland Sports Study and Community Facilities study (commissioned as part of the Local plan process) the Council will engage with communities and groups to encourage and facilitate the delivery of the Council's Activity Strategy. The Council actively seeks developer contributions (where possible) to the provision of sport, leisure and open space facilities through the S106 process.
- 4.8 The Council will act as an 'intelligent friend' to communities who wish to explore and develop new or enhanced community facilities. This will include (but not limited to) guidance on procurement, feasibility studies, financing options, S106 processes etc. A number of parish councils and communities have in the past couple of years have accessed this support, for example, Scraftoft and Broughton Astley. The Council has made in the current year direct community grants for feasibility studies. The current bidding round (closing date on the 6<sup>th</sup> October 2017) allows communities to bid for:
- (a) Capital funding for Parish Councils, and properly constituted Community and Voluntary Sector organisations, to assist with the renovation, improvement and provision of community buildings for physical activities.
  - (b) Support to Parish Councils, and properly constituted Community and Voluntary Sector organisations, for the commissioning of feasibility studies as part of the development plan to undertake substantial refurbishment or propose a new-build community facility.
- 4.9 The Council will consider any business case put forward for community facilities on a case by case basis.
- 4.10 The Council also invests and levers in public health and other external funding for significant community outreach and targeted interventions for particular communities and demographic groups.
- 4.11 Future reports will be brought to the Executive on items 4.6 to 4.9 together with the Council's Activity Strategy.

### **Public Engagement Summary**

- 4.12 The consultation supports the consultant's advice that the **Core Facilities** for a new centre at Market Harborough are;
- Swimming Pool
  - Sports Hall, uses, for example;
    - Badminton
    - Table Tennis

- Netball
- Basketball
- Trampolining
- Gymnastics
- Dance/Keep Fit
- Childrens Activities
- etc.
- Gymnasium with associated studios
- Associated changing facilities and car parking

4.13 The core facilities identified in the consultation are already provided in Lutterworth

4.14 There are a number of other facilities which have been identified through the consultation, and these will be included on a list of **Desirable Facilities** for both Market Harborough & Lutterworth. These include, for example, but not limited to;

- Bowls Hall
- Café
- Health Suite
- Physiotherapist facilities
- Hydrotherapy facilities
- Crèche
- Online Booking Facilities
- Tennis
- Squash Courts
- Clip 'n' Climb
- Soft Play Area
- Provision of Outreach activities
- Any facilities identified through the procurement process, which the council and/or bidders deem appropriate

4.15 The procurement process will identify whether the inclusion of these facilities will generate an income, be cost neutral or incur a cost. It is important that the Council is not prescriptive about the desirable facilities to be included in order for bidders to be free to propose innovative and integrated solutions including the potential for commercial leisure opportunities to be provided alongside the Council's core leisure requirements. These aspects will be the subject of a future Executive report at an appropriate stage through the procurement process to agree the facilities to be provided. This will include the new build at Harborough as well as improvements at Lutterworth.

4.16 Notwithstanding, the desirable facilities which will be identified in the procurement pack, the process will look for innovation from bidders, which may include other facilities and services not specifically identified through the consultation process.

- 4.17 In addition, the results of the surveys will be shared with the bidders, which will help their considerations of the additional facilities, both at Harborough and for the £1m improvement package allocated for Lutterworth.

#### **Bowls Club Engagement Summary**

- 4.18 A meeting was held with representatives of the Harborough & District Indoor Bowls Club and a representative of English Indoor Bowling Association Ltd.
- 4.19 The Bowls Club were advised that the bowls hall is subsidised by other elements of the operation, and the Club were advised that it will be important to make the Bowls Hall sustainable in the medium term to encourage the operators to ensure the provision is included in any future centre.
- 4.20 The Club were encouraged to take advantage of the opportunity over the next 12 months to agree a plan to increase users and members, which will show operators and the Council a direction of travel which may encourage a new facility to be incorporated in to the new Leisure Centre.
- 4.21 The Bowls Club were asked to provide a Business Plan outlining how it will grow the membership and some monitoring of performance over the next 12 months, which, may provide the evidence that may help the inclusion of any facility. The Indoor Bowling Association representative agreed to support the Club in the development of the Business Plan.
- 4.22 At the meeting, the Club put forward the arrangements at Enderby Leisure Centre as a good example. Officers have visited the centre and have had discussions with Blaby Council and its leisure operator. The Club in Enderby has c. 300-500 members, compared with c. 100-125 members in Harborough. This level of membership helps support a 'rental type' payment to the leisure operator which helps support the sustainability and affordability of the facility. Good engagement between the Club and leisure provider ensures good levels of secondary spend, which assists the overall operation.

#### **Soft Market Testing Summary**

- 4.23 The Council has engaged with potential providers through a 'soft market testing' exercise to assess interest in delivering leisure services within the Harborough District; and to inform consideration of the most cost effective structure for delivery, and the most appropriate method of procurement.
- 4.24 Formal responses were submitted by six potential providers. Of these:
- Three indicated that they would prefer a 'DBOM' approach.
  - Three indicated a preference for a leisure management contract (and by implication, a separate process for design and construction).
  - All six indicated that they would consider tendering regardless of the model adopted (i.e. whether or not the Council chose the 'DBOM' approach).
- 4.25 Three other providers registered an interest in the opportunity, but did not make formal submissions. The Council's consultant approached these

providers and discussed the project informally. Of these three, one indicated that they would probably not tender if 'DBOM' was chosen and would only consider a Leisure management contract; one provider said that their decision on tendering would not be affected by the choice between 'DBOM' and a leisure management approach; and the third did not respond at all.

- 4.26 The Council's consultant believes that this exercise has indicated that there would be sufficient interest in the DBOM approach for the Council to be confident of receiving up to six tenders; if a Leisure management contract were offered up to seven providers have indicated an interest in tendering. The level of interest in the project and competition for the contract is typical of recent leisure procurements and therefore, unlikely to be affected by the Council's decision to adopt 'DBOM' or the alternative.

## **5. Financial Implications**

- 5.1 Indicative financial modelling was included within the Executive report of the 15<sup>th</sup> May 2017 and identified capital investment needs of £15.1 million in the Council's two core Leisure Centres in Market Harborough and Lutterworth. The modelling considered a series of investment options and 'asset life' assumptions and concluded that a new build at Market Harborough and refurbishment at Lutterworth resulted in the lowest net additional revenue cost to the Council.

- 5.2 It is prudent for the Council to offer prudential borrowing support for the investment in the two Leisure Centres to take place – this is due to the favourable borrowing rates offered from the PWLB as opposed to commercial borrowing that could be accessed by external bidders. This borrowing will be factored into the bids received through the procurement process. The Council is also encouraging bidders to consider the delivery of additional commercial leisure offerings on top of the Council's core leisure requirements in order to promote additional physical activity among residents and to generate additional revenue to offset the net running costs of operating leisure centres. At this stage Executive is being asked to recommend to Council up to £5 million of additional prudential borrowing approval to be available to Bidders subject to positive revenue returns.

The Council's planned investment in Leisure Centres is a major project where needs, capital and revenue costs will be determined through a competitive recruitment process. It is recommended that Executive recommend to Council an additional capital contingency budget of 10% to provide flexibility and the necessary approvals to facilitate the procurement process.

- 5.3 The Council currently has usable capital receipts reserve that can be used to negate the need for borrowing. Based on the balance at the 1<sup>st</sup> April 2017 it is suggested that Executive recommend to Council utilisation of £2 million of capital receipts, thereby reducing the core prudential borrowing required down from £15.1 million to £13.1 million. It may be possible to apply further receipts at time of build (April 2019 onwards) reducing the borrowing costs further. Through application of £2 million of capital receipts the borrowing costs

included within the model reduce by £108K per annum. This reduces the modelled 'subsidy' down from the current £135K per annum to £102K per annum. It is the Council's intention through the procurement process to seek to deliver the future provision of the two core Leisure Centres at no subsidy or a positive revenue return. However, this ambition will be assessed for its deliverability and impact through the procurement process.

5.4 The expenditure and funding assumptions at this stage of the procurement are:

	Modelled Expenditure	Funding	
	£m	Prudential Borrowing £m	Capital Receipts £m
Core Leisure Offer	15.1	13.1	2.0
Contingency	1.5	1.5	0
Bidder Commercial Options	5.0	5.0	0
<b>Total</b>	<b>21.6</b>	<b>19.6</b>	<b>2.0</b>

5.5 The investment in the Council Leisure Centres and associated procurement has a series of associated risks detailed in the Executive report of the 15<sup>th</sup> May 2017 and replicated below. The Council will assess through the procurement the transfer of risk and associated costs. Through progressing the Design, Build Operate and Manage route the Council will secure certainty over Capital costs and operating returns at point of signing the contract

Risk	Risk Management
	DBOM
Interface Risk	<ul style="list-style-type: none"> <li>Managed by Consortium and any costs fall to consortium</li> </ul>
Capital Cost Risk	<ul style="list-style-type: none"> <li>Managed by Consortium and any costs fall to consortium</li> </ul>
Construction Overrun	<ul style="list-style-type: none"> <li>Managed by Consortium and any costs fall to consortium</li> <li>Reputational risk will need to be managed by communication from Council and Operator</li> </ul>
Revenue Risk	<ul style="list-style-type: none"> <li>Transferred to Consortium</li> </ul>
Commercial Return	<ul style="list-style-type: none"> <li>Bids will present optimum solution for commercial return and innovation</li> </ul>
Planning	<ul style="list-style-type: none"> <li>Council risk until planning approved but Consortium submits planning</li> </ul>
Market Appetite	<ul style="list-style-type: none"> <li>Early market engagement to ensure commitment from DBOM bidders</li> </ul>
Quality & Life	<ul style="list-style-type: none"> <li>Build in life expectancy at end of contract for the</li> </ul>



Span	Consortium across different aspects of the building
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5.6 The revenue costs of undertaking the procurement will be funded from the existing revenue Major Projects Budget within the approved Revenue Budget.

## **6.0 Legal Implications**

6.1 The procurement of a new Leisure Centre and Leisure Operator will be subject to European Procurement rules. The Council has appointed specialist external legal advisers, Sharpe Pritchard, to provide legal advice on the procurement approach and the contractual arrangements. Other professional advice, for example financial and taxation advice will be sourced via this or other framework agreements.

6.2 The Corporate Director (BJ) has been given delegated authority in the report of 15 May 2017 to decide on the procurement procedure to be followed; however, the Executive are being requested in this report to confirm whether it wishes to follow the DBOM route or separate construction contract (s) and a separate operating contract.

## 7 Equality Analysis Implications/Outcomes

7.1 This has been undertaken as part of the consultation process and continue as the project progresses.

7.2 The procurement process will evaluate the bids to ensure we maximise accessibility for all users both in terms of physical and programme aspects.

## 8. Risk Management Implications

8.1 The procurement of a new leisure centre and operator from 2019 is a major project with complex delivery issues, risks and dependencies. A full risk register for the project will be managed in accordance with the Council's Project Management methodology.

8.2 This project involves inherent risks for private sector operators in respect of capital build costs, operating costs and demand (usage) for Leisure Services over the period of the contract. It will be important for the Council to understand those risks that will be transferred to a partner and how this is priced into a future contract. The Council may choose to retain some of the risks as part of the procurement.

## 9 Consultation

9.1 During the summer and prior to the initiation of the procurement, the Council engaged with the public and other stakeholders through the following:

- On-line questionnaire available for all.

- Development of public engagement layouts and images for a new facility – identifying the facility mix and seeking to present the Council's ambition.
- Displays and sessions for public to comment on the proposals in the Leisure Centres and other locations.
- Communication and survey to all clubs and stakeholders.
- Targeted discussions with a number of clubs (such as Bowls Club) to discuss the future of facilities.

9.2 The Council also consulted on the Draft Physical Activities Strategy which will be the focus of a separate report to members.

9.3 Soft Market Testing with Leisure Providers was undertaken during the summer to determine the interest in the Council's preferred option of a DBOM and to ensure a competitive bidding process.

## 10. Options

10.1 Do Nothing: This retains the Leisure Centres as current and does not enhance or alter the facilities on offer. This requires £2 million condition survey investment and would result in a significant increase in operating deficit and as such this option is not recommended.

10.2 Minor Refurbishment. This makes some minor changes to increase usage, especially in relation to Health and Fitness. However, the Leisure Centres would remain largely time-expired and relatively in-efficient. The increase in turnover would not meet the anticipated capital refurbishment costs and as such this option is not recommended.

10.3 Major Refurbishment. This will enhance part of the Asset at Market Harborough but not the whole centre. The Capital Investment costs significantly outweigh the increase operating position from increased usage. As such, this option is not recommended.

10.4 New Build. This allows for a new build at Market Harborough to provide 21<sup>st</sup> Century Leisure facilities and would be more attractive to users. The ability to spread the capital costs over 25 years makes this the **most economically advantageous option** and delivers the highest level of activity and participation and is the option recommended.

10.5 The previous report identified the various procurement options, and the soft market testing has been undertaken to ascertain sufficient interest in the preferred route. As outlined in the Soft Market Testing Summary above, in the consultants view, this engagement supports the preferred route.

11 Background Papers

11.1 Condition Surveys (Exempt)

11.2 Summaries of other consultation/engagement

- Meeting with the Indoor Bowls Club including letters from Club members– Paper 1
  - Engagement with residents with learning and physical disabilities Paper 2
  - Sports Club Forum – Paper 3
  - Street Survey – Paper 4
  - Engagement with Schools & under 18's – Paper 5
  - Parish Council Meeting – Paper 6
  - Engagement with current Leisure Centre Clubs Users – Paper 7
  - Drop-in Sessions – Paper 8
  - Luncheon Club and GP surgeries – Paper 9
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**Previous report(s): Executive Report, 15<sup>th</sup> May 2017**

**Information Issued Under Sensitive Issue Procedure: Yes - part**

**Ward Members Notified: N**

**Appendices:**

**A. Consultation Summary**

**B. Extracts from the Financial Model (Summary)**